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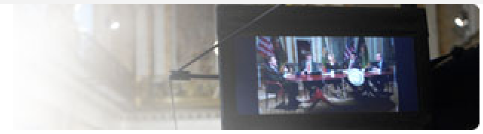

Transcript of Secretary Paulson's Remarks at Forum on International Investment

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SECRETARY HENRY M. PAULSON: Thank you all for being here, and welcome. And let me thank Todd Malan and Dean Brown very much for hosting this event. We appreciate it a great deal.

I'm very much looking forward to today's discussion about the role of investment and trade in our economy. As you heard, we have a very distinguished panel. We have a governor, a committee chairman – who will be here shortly – a best-selling author, a CEO, and a COO, and I'm going to I guess be the secretary of the group. (Laughter.)

It's very fitting that we gather on a college campus with graduate students. You know, it's – many of you I know are getting ready to begin careers. You're the next generation of leaders. You will begin your careers amidst one of the most dynamic eras of global business and finance: one filled with challenges and one filled with great opportunities.

This morning, President Bush released an important policy statement reaffirming the United States' longstanding commitment to open economies. An open economy, underpinned by the rule of law, includes free markets and trade. It also includes – as we will discuss in much more detail today – vigorous promotion of open investment policies.

This reaffirmation comes at a very critical time. As more and more nations move toward open markets, I'm concerned that the United States' longstanding consensus of support for an open economy is eroding.

We are witnessing a rise in protectionist sentiment. I can remember back to the 1980s, and I was talking with Governor Sanford earlier – he graduated from Virginia Business School then. And in the 1980s there were concerns about Japan's growing economic success when some thought Japan was going to own the world.

Some of you may remember that Japanese companies were buying property – buildings and things, landmarks. I remember the Rockefeller Center purchase, and Pebble Beach. And one might have inferred from the headlines and the hyperbolic rhetoric of the day that these landmark assets were headed straight for Tokyo. But the last time I looked, Rockefeller Center is still in New York City.

Twenty years later, we now know that the inflow of foreign capital brought many new American jobs. As a matter of fact, when a foreign investor makes a direct investment in our nation, it is the ultimate vote of confidence in our economy.

Unfortunately, the fear of foreign investment may be resurfacing. In a post-9/11 world, there's a sense that we must hold on to our assets more tightly as if somehow that will keep us safe. Clearly we must and we do take every precaution to protect our national security. This doesn't mean we should refuse investment capital that can create jobs and revitalize communities, or that we should discourage it by raising concerns that foreign investment may not be as welcome as it was in the past.

We need not be governed by fear. We can protect our national security while welcoming investments that protect our economic security. And we have a process that does just that.

Since 1989, for 18 years, the U.S. has had interagency process known as CFIUS to review foreign acquisitions of a U.S. company if there are national security concerns. The CFIUS process involves all of our national security agencies working together in a vigorous investigation of the facts.

In the aftermath of the Dubai port situation, this process has received great public scrutiny, which has led some to believe that the U.S. is less friendly to foreign investment or attempting to erect barriers. I can assure you that this perception is not true. The CFIUS process applies only when a transaction may be related to national security, and that is a very small percentage of foreign investment. The vast majority are mergers, acquisitions and investments, and everything from retail to software acquisitions and investments that don't receive a national or – excuse me – a CFIUS review. Last year, for instance, only 10 percent of foreign direct investments were reviewed by CFIUS, and the vast majority of those received a review which was resolved without controversy.

When a transaction may relate to national security, our policy remains as it has been since CFIUS was created – to ensure national security first while keeping America open to investment.

Foreign direct investment is an essential part of our domestic economy. U.S. affiliates of foreign companies bring investments to our shores, creating jobs and revitalizing communities. By some measures, however, foreign direct investment, which peaked in 2000 – and the contribution to our economy – excuse me – it's very interesting because foreign direct investment had been growing pretty steadily for a long period of time. It peaked in 2000, and the contribution to our economy of foreign-owned subsidiaries has been tailing off or declining ever since. Now I think that it's too early to tell whether this is a temporary phenomenon or trend, but it bears watching very closely because foreign direct investment is, as I said, vital to our economic strength.

I'm just going to give you a few brief statistics before getting into our discussion. Foreign-owned companies directly provide jobs to over five million workers or almost 5 percent of our domestic workforce, and they also provide roughly an equivalent number of jobs indirectly because foreign-owned subsidiaries sourced about 80 percent of the inputs domestically. And these companies, which produce about 6 percent of our output also provide 10 percent of our total capital investment, 13 percent of our R&D, and 20 percent of our exports.

The United States has historically been the best place in the world to do business and is a magnet for foreign investment, so it's important to reaffirm both our openness to foreign direct investment and the benefits investment brings to the U.S. economy. And as we seek to attract foreign capital, we must realize that we have a constantly changing world where there are an increasing number of attractive economies across the globe competing for investment dollars. Against this backdrop, we must assess the cost versus the benefits of our regulatory structure and certain aspects of our legal system that may discourage foreign investment.

Our corporate tax system is also increasingly putting us at a competitive disadvantage with some – with a few other nations which tax companies or capital at lower rates than does the U.S.

The President's policy statement makes clear that the administration will not retreat. We welcome foreign investment and the benefits it brings to communities across America. In fact, I expect the administration will undertake a number of additional initiatives in support of open investment in the months ahead, and some are already underway.

And again, I look forward to working with the panelists today, and having a good discussion with all of you.

Thank you.

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